

TENNESSEE GENERAL ASSEMBLY
FISCAL REVIEW COMMITTEE



FISCAL MEMORANDUM

HB 2840 – SB 2777

April 25, 2012

SUMMARY OF AMENDMENT (017375): Deletes all language after the enacting clause. Effective upon becoming a law, repeals the gift tax on transfers made on or after January 1, 2012.

FISCAL IMPACT OF ORIGINAL BILL:

Decrease State Revenue – Net Impact -
\$14,953,400/FY13-14 and Subsequent Years

Decrease State Expenditures - \$112,600/FY13-14
\$167,700/FY14-15 and Subsequent Years

Increase Local Revenue - \$218,200/FY13-14 and Subsequent Years

Other Fiscal Impact – Secondary economic impacts may occur as a result of this bill. Such impacts may be realized due to changes in population or as a result of other behavioral changes prompted by passage of this proposed legislation. Due to multiple unknown factors, fiscal impacts directly attributable to such secondary economic impacts cannot be quantified with reasonable certainty.

FISCAL IMPACT OF BILL WITH PROPOSED AMENDMENT:

Decrease State Revenue – Net Impact -
\$14,953,400/FY12-13 and Subsequent Years

Decrease State Expenditures - \$112,600/FY12-13
\$167,700/FY13-14 and Subsequent Years

Increase Local Revenue - \$218,200/FY12-13 and Subsequent Years

Other Fiscal Impact – Secondary economic impacts may occur as a result of this bill. Such impacts may be realized due to changes in population or as a result of other behavioral changes prompted by passage of this proposed legislation. Due to multiple unknown factors, fiscal impacts directly attributable to such secondary economic impacts cannot be quantified with reasonable certainty.


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Assumptions applied to amendment:

- Under current law, gift tax collections for gifts made during tax year 2012 accrue to FY12-13. This collection pattern is assumed to remain constant into perpetuity.
- According to the Department of Revenue (DOR), gift tax collections were approximately \$15,470,000 in FY10-11.
- Gift tax collections under current law remain constant at FY10-11 levels.
- One-hundred percent of gift tax collections are allocated to the General Fund.
- The recurring decrease in state revenue as a result of repealing the state's gift tax is estimated to be \$15,470,000 per year.
- Fifty percent of taxpayer savings will be spent on other sales-taxable goods and services.
- An increase in taxable sales of \$7,735,000 ($\$15,470,000 \times 50.0\%$) per year.
- The current state sales tax rate is 7.0 percent; the average local option sales tax rate is estimated to be 2.5 percent.
- Pursuant to Tenn. Code Ann. § 67-6-103(a)(3)(A), local governments receive 4.5925 percent of state sales tax revenue as state-shared sales tax revenue.
- The net recurring increase in state sales tax revenue is estimated to be \$516,584 $[(\$7,735,000 \times 7.0\%) - (\$7,735,000 \times 7.0\% \times 4.5925\%)]$.
- The total recurring increase in local government revenue is estimated to be \$218,241 $[(\$7,735,000 \times 2.5\%) + (\$7,735,000 \times 7.0\% \times 4.5925\%)]$.
- The total net recurring decrease in state revenue is estimated to be \$14,953,416 $(\$15,470,000 - \$516,584)$.
- Based on information provided by DOR, three positions from the Audit Division can be eliminated in FY12-13 as a result of no longer having to administer the gift tax. One additional position can be eliminated in FY13-14. The associated decrease in state expenditures for FY12-13 is estimated to be \$112,600, and the associated recurring decrease in state expenditures is estimated to be \$167,700 beginning in FY13-14.
- There could be subsequent increases in state and local government revenue and expenditures due to secondary economic impacts prompted by passage of this bill. Increases in revenue may occur if the state's population increases as a result of a reduced tax liability. Increases in expenditures may occur if the demand for governmental programs and infrastructure increase as a result of population increases. Due to multiple unknown factors such as the extent and timing of population changes, the fiscal impacts directly attributable to such secondary economic impacts cannot be quantified with reasonable certainty.

CERTIFICATION:

The information contained herein is true and correct to the best of my knowledge.



Lucian D. Geise, Executive Director

/rnc